

History of the Central Bank Development in the Indonesian Archipelago

Merchant ships

Caught up with the waves up to Malacca

If you wish to read

Do not forget the Indonesian Central Bank's history

Let's follow the history of the Central Bank's development in the Indonesian Archipelago...

Before the arrival of the Westerners, the Indonesian Archipelago had become an international trade zone. There were then two passages used for conducting international trade by the traders, namely the overland passage more popularly known as "the Silk Road" and the sea passage. Via this second passage, the export commodities in the Indonesian Archipelago territories were among others: spices, yellow sandalwood, camphor and incense that were brought up to the Indian market and even the Roman Empire (Byzantine). Before the European trader began to explore these territories, there were two major kingdoms in the archipelago contributed to the busy international trade, namely Sriwijaya and Majapahit kingdoms. Amid such booming trading activities, the traders lacked standard currency although the communities had known rudimentary currency as means of payment.

Meanwhile, in the 15th century the European nations began to expand their exploration areas to different parts of the world, including Asia and Indonesian Archipelago. These explorations were pioneered by the Spaniards and Portuguese followed by the Dutch, British and French upon the collapse of Constantinople into the hands of Ottoman Turks in 1453. In the 16th and 17th centuries, a number of developments occurred in Europe, among others, the emergence of mercantilism, namely an economic system which centered its economic regulatory authority in the government's hand. With this mercantilism, they raised the funds to finance their exploration activities. Further, at the end of the 18th century, an Industrial Revolution took place in Europe. Industrial activities began to develop and production output increased and spurred export activities to Asia and the United States. The speedy progress of trade in Europe led to the emergency of financial service institutions which later developed into a modern bank institution, among others Bank van Leening in the Netherlands. Afterwards, certain banks in Europe such as Bank of England (1773), Riskbank (1809) and Bank of France (1800) gradually turned into the Central Banks.

The booming trade in Asia in the 15th century had further encouraged the trade expeditions of the European nations in the Archipelago, particularly upon the emergence of numerous emporium city harbors along the sea trade passage, among others Malacca. The arrival of the Westerners added the types of currencies circulated in South East Asia. Consequently, the local currencies were moved aside as they had been circulated without a clear regulation and control. The Chinese kepeng currency, namely Cassie, was dominating Java while the Spanish Real began to emerge as the most favorite currency and most widely circulated.

In 1511, the Portuguese managed to occupy Malacca and kept moving to the east in search of spice sources in Molucca Islands. They were confronted with the Spaniards

who arrived via the Philippines. Later on the Dutch with the support of their troop armada also attempted to dominate the trade commodity sources in Java and the archipelago. Under the VOC's flag, namely the holding company of trading companies in the Netherlands, they consolidated their power grip in Batavia in 1619. To smoothen and facilitate their VOC trading activities in the archipelago, the Dutch in 1746 established De Bank van Leening which then became De Bank Courant en Bank van Leening in 1752. Bank van Leening was the very first bank operating in the archipelago. At the end of the 18th century, VOC deteriorated and went bankrupt. As a result its power was taken over by the Government of Dutch Kingdom. After the administration by Herman William Daendels and Janssen, the East Indies fell to British hand.

The administration under Sir Thomas Stamford Raffles began. During his period, Rijksdaalder currency was withdrawn and substituted with the Spanish Real. In 1813, this currency was again replaced with Ropij Jawa. Raffles did not stay long in East Indies (1811-1815) as at the end of the war against France (under Napoleon), Britain and the Netherlands agreed that all the East Indies territories were returned to the Dutch. Since that time, the East Indies were called Dutch Indiess and was ruled by the General Commissioner (1815-1819) made up of Elout, Buyskes and van der Capellen.

DJB pursuant to the 1st up to 8th Exclusive Rights (1828-1922)

The idea to set up a circulation bank for Dutch Indies was materialized prior to the departure of the General Commissioner of Dutch Indies, Mr. C.T. Elout to Dutch Indies. The financial condition in Dutch Indies was considered in need of orderliness and regulation of the payment system through a bank institution. At the same time, the business people in Batavia, Dutch Indies called for the establishment of a bank institution to meet their business needs. Nevertheless, such idea was materialized only when King Willem the First issued a Power of Attorney to the General Commissioner of Dutch Indies on 9 December 1826. This letter authorized the Dutch Indies Administration to set up a bank pursuant to the special authority with a definite period or commonly known as the Exclusive Rights (Octrooi). With such power, the Dutch Indies Administration began to prepare for the establishment of DJB. On 11 December 1827, the General Commissioner of Dutch Indies, Leonard Pierre Joseph Burggraaf Du Bus de Gisignies issued Decree No. 28 regarding the Exclusive Rights and the provisions regarding DJB.

Subsequently, on 24 January 1828 through the Decree of the General Commissioner of Dutch Indies No. 25, the Deed of Incorporation of De Javasche Bank (DJB) was stipulated. Simultaneously, Mr. C de Haan was appointed President DJB and C.J. Smulders Secretary of DJB. This led to the establishment of De Javasche Bank. The Exclusive Right served as the provision and guidance for DJB to run its activities. The first DJB's Exclusive Right was valid for 10 years from 1 January 1828 until 31 December 1837 and it was extended up to 31 March 1838. On 11 March 1828, DJB printed its bank notes for the very first time amounting to f 1,120,000 with denominations of f 1,000, f 500, f 300, f 200, f 100, f 50, and f 25. While to issue smaller fractions, the Bank's Board of Directors had to apply for such to the Director General who would pass on the requests to the Netherlands. In its second year of operation, DJB began to open its branches outside Batavia, namely in Semarang and Surabaya. Further in its fourth Exclusive Right, DJB opened five other branches in Java and outside Java, namely in Padang, Makassar, Cirebon, Solo and Pasuruan. It

was then followed by the Yogyakarta Branch Office before the expiry of the Fifth Exclusive Right.

During the sixth Exclusive Right period, DJB which was then 52 years old revised its basis of incorporation through the Deed of Incorporation before Notary Derk Bodde in Jakarta on 22 March 1881. Under this new deed, DJB changed its status to Naamlooze Vennotschap (N.V.). With such deed amendment, N.V. DJB was considered a new company. During the sixth Exclusive Right, there were no additional Branch Offices. The Branch Office in Pasuruan was even closed down on 31 March 1890 following a persistent loss making it impossible to survive. The eight exclusive was DJB's last exclusive before the enactment of DJB Act in 1922. During this last exclusive, DJB issued numerous rulings in its payment system aimed at improving the payment traffic in Dutch Indies. The eight exclusive expired on 31 March 1921 and was extended for another year only until 31 March 1922.

The Period of De Javasche Bank Act of 1922 (1922-1942)

On 31 March 1922, De Javasche Bank Act of 1922 was enacted. This act was then amended and added with Act dated 30 April 1927 and Act dated 13 November 1930. Basically, De Javasche Bank Act of 1922 was the extension of the eight exclusive of DJB which had been formerly valid. The Bank Act of 1922 was valid for 15 years plus an automatic extension for another year as long as there are not annulment by the Governor General of the Board of Directors. The amount its paid-up capital was enlarged to f 9,000,000 and had to be met within a period as determined by the Governor General. The management of DJB during the tenure of DJB Act comprised the Board of Directors comprising one President and at least two Directors, one of them served as the Secretary. In addition, there were Acting President I, Acting President II, Acting Director I and Acting Director II. The number of the Directors would be determined jointly during the meeting of the Board of Directors and the Board of Commissioners.

While the Board of Commissioners was made up of 5 persons who were the shareholders with voting right (owned 4 shares) and had to be Dutch nationals. The Board of Commissioners was in charge of overseeing the Board of Directors, verifying the annual account and its bookkeeping and simultaneously giving its approval. DJB during this period consisted of 7 sections, among others were Economics Statistics, Secretary, Bank Draft, Production and Stocks. Throughout this period, DJB developed fast with 16 Branch Offices, among others: in Bandung, Cirebon, Semarang, Yogyakarta, Surakarta, Surabaya, Malang, Kediri, Kutaraja, Medan, Padang, Palembang, Banjarmasin, Pontianak, Makassar, and Manado, as well as a representative office in Amsterdam and New York.

DJB during the Japanese Occupation (1942-1945)

The Second World War in Europe started and spread quickly to the Asia Pacific regions. The Japanese military began to expand its invasions to the Asian continent towards south east. Shortly before the arrival the Japanese troops in Java, the DJB President, namely Dr. G.G. van Buttingha Wichers managed to remove all the bank's gold reserves to Australia and South Africa via Cilacap harbor. Having occupied Java in February-March 1942, the Japanese rulers forced the handover of the entire bank assets to them. Furthermore in April 1942, there was announcement of banking moratorium for the postponement of bank obligatory payments. A few months later, the chief of the Japanese troops for Java stationed in Jakarta issued a regulation that

instructed liquidation of all the Dutch, British and a number of Chinese banks. A similar regulation was issued by the Military Command in Singapore for banks operating in Sumatra. While the authority to liquidate the banks in Kalimantan and Great East was under the Navy Ministry in Tokyo.

The roles and the duties of such liquidated banks were then taken over by the Japanese banks, such as Yokohama Specie Bank, Taiwan Bank and Mitsui Bank which existed before and closed by the Dutch when the war started. As a circulation bank in Java, the Japanese established Nanpo Kaihatsu Ginko which continued the tasks of the Japanese occupying soldiers to circulate invasion money printed in Japan in seven denominations comprising one up to ten gulden. Until mid August 1945, invasion money amounting to 2.4 billion gulden was circulated in Java, 1.4 billion gulden in Sumatra, and a smaller amount in Kalimantan and Sulawesi. As from 15 August 1945, as much as 2 billion gulden was also circulated. Most of it derived from the money withdrawn by the Japanese banks in Sumatra and partly the money stolen from De Javasche Bank of Surabaya and some other places. Until March 1946, the money in the Dutch Indies amounted to eight billion gulden. This sparked the fall of the monetary value and worsened the economic burden in the Dutch Indies.

DJB during the Revolution Era (1945-1950)

As soon as the Japanese surrender on 15 August 1945, Indonesia announced its independence on 17 August 1945. The following day on 18 August 1945, this new country drafted the 1945 Constitution as the very foundation for the nation, state and communities aimed to achieve social and prosperous society. The 1945 Constitution devoted much attention to the determination of this foundation for the ideal life of the state and economic sector as obviously reflected from the elucidation of the 1945 Constitution, Chapter VIII, article 23 on Financial Matters, Indonesia stated its goals to set up its Central Bank called Bank Indonesia to consolidate its integrated territory and economic-monetary unity.

In the meantime by having a free ride with Allied Forces, the Dutch again tried to reoccupy the its former colonies. As a result, the territories were ruled by two administrations, namely the Government of the Republic of Indonesia seated in Jakarta then relocated to Yogyakarta and the Dutch Administration or Nederlandsche Indische Civil Administrative (NICA) with its headquarters in Jakarta as well. Further, On 10 October 1945, NICA opened the access of the head offices of the Japanese Banks in Jakarta and assigned DJB as the circulation bank taking over the role of Nanpo Kaihatsu Ginko. Soon DJB managed to reopen its nine branch offices in the territories occupied by NICA.

The branches were among others were in: Jakarta, Semarang, Manado, Surabaya, Banjarmasin, Pontianak, Bandung, Medan and Makassar. Later through the first Military Aggression, DJB managed to reopen its branch offices in Palembang, Cirebon, Malang and Padang. While the DJB branches in Yogyakarta, Solo and Kediri were managed to be reopened after the second Military Aggression.

Meanwhile, in the territories under the Republic of Indonesia, on 19 October 1945, the government established Jajasan Poesat Bank Indonesia (Bank Indonesia Foundation) which later became Bank Negara Indonesia (BNI) as a circulation bank in accordance with Government Regulation in lieu of Act No. 2 of 1946. However, due to the independence struggles and limited international recognition restricted the role of BNI as a circulation bank. Further as preparation to issue Republic Indonesia currency, the Government announced New Regulations of the Republic of Indonesia

No. 2 and 3. Both Regulations declared that NICA currency was not valid in the territory of the Republic of Indonesia and the introduction of a number of currencies which were valid as legal payment instruments in the territory of the Republic of Indonesia.

Oeang Repoeblik Indonesia (ORI) was first issued on 30 October 1946. By doing so, the Japanese and Dutch currencies were declared not valid after a withdrawing period as determined. The security issues as result of the conflicts continued and made the circulation of ORI to the entire territory of the Republic Indonesia difficult. As a result, the Central Government empowered certain Regional Governments to issue banknotes as legal payment instruments but valid with restriction in given areas. Such currencies were known as ORIDA and could then be exchanged with ORI.

Period of Recognition of the Republic of Indonesia's Sovereignty up the Nationalization of DJB (1950-1953)

The Roundtable Conference convened in The Hague, Holland in 1949 marked the end of the conflicts between the Republic of Indonesia and the Dutch Kingdom. In December 1949, Holland recognized the sovereignty of the Republic of Indonesia as part of The Unitary State of the Republic of Indonesia (RIS). At this time, pursuant to the resolutions reached in the Roundtable Conference, the role of the central bank would remain under the De Javasche Bank (DJB). The RIS Government did not last long as on 15 August 1950, the RIS Government annulled the resolutions of the Roundtable Conference, and decided to return to the Unitary State of the Republic of Indonesia (NKRI). However, the role of DJB then remained as a circulation bank.

The annulment of the Roundtable Conference's resolutions had apparently sparked the nationalism drive into the Indonesian economy. Thus, within the same context, there was a strong desire to change DJB from a private company into a state-owned institution. Additionally, the Republic of Indonesia as an independent and sovereign country would ideally own its central bank. Accordingly, on 28 May 1951, Prime Minister, Sukiman Wirjosandjojo before the Parliament announced the wish to nationalize DJB. Having learned this news, Dr. Houwink, the DJB's President was shocked as he had not been earlier informed and resigned from his position. However, Houwink was then honorably terminated and DJB appointed Mr. Sjafruddin Prawiranegara to replace Houwink as the President of the new DJB's President.

On 19 June 1951, the Government set up the DJB Nationalization Committee to study the proposed nationalization measures, draft the nationalization act and simultaneously draft the central bank act. Further, on 15 December 1951, the Government announced Act No. 24 of 1951 concerning DJB Nationalization. The actual nationalization took place by purchasing 99.4% of DJB's shares amounting to 8.9 million gulden. The Draft Main Act on the Central Bank was subsequently passed to the Parliament in September 1952. The draft act was then deliberated and endorsed by the Parliament on 10 April 1953 and legalized by the President on 29 May 1953 and enacted as from 1 July 1953. From this day onwards, Indonesia owns a central bank institution called Bank Indonesia.